

MISSAUKEE COUNTY ROAD COMMISSION

FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2004

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name MISSAUKEE COUNTY ROAD COMMISSION	County MISSAUKEE
Audit Date JAN-JULY, 2005	Opinion Date JULY 13, 2005	Date Accountant Report Submitted to State: SEPTEMBER 12, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			X
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) SCHEPERS & HOFSTRA, P.C.			
Street Address 100 ROLAND ST.	City MCBAIN	State MI	ZIP 49657
Accountant Signature Thomas W. Hlym, CPA		Date 9/12/05	

MISSAUKEE COUNTY ROAD COMMISSION

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SCHEPERS & HOFSTRA, P.C.

Certified Public Accountants

July 13, 2005

INDEPENDENT AUDITORS' REPORT

Members of County Road Commission
County of Missaukee
Missaukee, Michigan

We have audited the accompanying basic financial statements of the Missaukee County Road Commission, a component unit of Missaukee County, Michigan, as of and for the year ended December 31, 2004, as listed in the table of contents. These basic financial statements are the responsibility of the Road Commission. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Missaukee County Road Commission as of December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on page 2-7 is not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information. We express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Missaukee County Road Commission's basic financial statements. The other supplementary information is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Schepers & Hofstra, P.C.

MISSAUKEE COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION & ANALYSIS

INTRODUCTION:

The Missaukee County Road Commission (MCRC) is a special purpose government engaged in a single government program of road maintenance and construction in the County of Missaukee, Michigan. The adoption of Governmental Accounting Standards Board Statement Number 34 (GASB-34) has changed the MCRC financial statement presentation. In the past, governmental entities were required to report financial information only on the modified accrual accounting method. The modified accrual method of accounting focuses on current available resources and is referred to as governmental fund level accounting. Now, in addition to the governmental fund level information, governmental entities are also required to report financial information on the full accrual method of accounting. The full accrual method of accounting focuses on the entity as a whole and is referred to as government-wide level accounting. For MCRC, the most significant differences between the governmental fund statements and the government-wide statements relate to capital assets (buildings and equipment) and infrastructure (roads and bridges). Capital assets and infrastructure are not recognized as assets and capitalized at the governmental fund level.

With respect to the Statements of Net Assets and Activities, the fund level financial statements and the government-wide financial statements have been combined and are presented on the same page.

The audited financial activities of MCRC are presented herein. These statements include the following:

- Statements of Net Assets and Governmental Fund Balance Sheet,

- Reconciliation of the Balance Sheet Fund Balance to the Statement of Net Assets,

- Statement of Activities and Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance, and

- Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities for the Year End December 31, 2004.

CONDENSED FINANCIAL STATEMENTS:

The following are condensed government-wide financial statements for MCRC.

MISSAUKEE COUNTY ROAD COMMISSION

CONDENSED STATEMENT OF NET ASSETS

DECEMBER 31, 2004

ASSETS:

General Fund Assets	\$ 1,984,041
Capital Assets	<u>18,997,772</u>
Total Assets	<u><u>20,981,813</u></u>

LIABILITIES:

General fund liabilities	245,331
Liabilities associated with long-term debt	<u>129,891</u>
Total Liabilities	<u><u>375,222</u></u>

NET ASSETS:

General fund net assets	1,608,819
Invested in capital assets restricted for County roads - net of related debt	<u>18,997,772</u>
Total Net Assets	<u><u>\$ 20,606,591</u></u>

MISSAUKEE COUNTY ROAD COMMISSION

CONDENSED STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2004

REVENUE:

Program Revenue:

Federal and State Revenue	\$ 4,271,108
County Raised Funds	821,188
Permits	5,580
Interest	16,176
Other	25,747
Total Program Revenue	<u>5,139,799</u>

Gain on Equipment Disposal	<u>1,588</u>
Total Revenue	<u>5,141,387</u>

PROGRAM EXPENSES:

Primary Road Maintenance	775,053
Local Road Maintenance	1,485,719
State Trunkline Maintenance	444,265
Infrastructure Depreciation	1,314,231
Administrative	279,188
Other	<u>(193,345)</u>
Total Program Expenses	<u>4,105,111</u>

Change in Net Assets	1,036,276
Net Assets, Beginning of Year	19,574,409
Amortization of Contributed Capital	<u>(4,094)</u>
Net Assets, End of Year	<u>\$ 20,606,591</u>

MISSAUKEE COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION & ANALYSIS (continued)

ADDITIONAL COMMENTS:

The Total Net Assets for the Government-wide Financial Statements increased by \$1,036,276 during the fiscal year ended December 31, 2004. The majority of the increase reflects an investment in new capital assets, i.e. road improvements and equipment purchases, greater than the expenses associated with capital assets, such as depreciation and maintenance for the year.

During 2004, the Total Fund Balance for the Fund Financial Statements increased by \$248,849.

Management believes that the Net Assets balance provides sufficient working capital to support future operations of MCRC.

BUDGET:

The MCRC budget is prepared in accordance with state law using the modified accrual accounting basis. This is the same accounting basis used for the governmental fund.

ANALYSIS OF BUDGET AMENDMENTS AND APPROVAL:

ORIGINAL BUDGET VERSUS AMENDED BUDGET:

The budget is reviewed periodically and amended as information becomes or management's plans change. The amended budgeted revenue was increased by approximately \$960,800. This increase is due to the following:

Motor Vehicle Highway Funds: For the year ended December 31, 2004, the Road Commission completed a greater number of maintenance projects on primary and local roads than originally anticipated.

County Raised Funds: Throughout the year local Townships required significant assistance from the Road Commission. This assistance was not anticipated when the original budget was adopted. Projects of this nature are billed directly to the Townships.

The balance of the increase was from adjustments made to several individual revenues items, none which management considers significant.

Total budgeted expenditures increased from the original budget to the amended budget by approximately \$712,200. The majority of these amendments relate directly to costs associated with the additional revenues generated above.

MISSAUKEE COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION & ANALYSIS (continued)

AMENDED BUDGET VERSUS ACTUAL:

In accordance with the Budget Resolution adopted by the MCRC, the Finance Director has modified the budget to various revenue and expenditure accounts which cannot be accurately projected prior to year end. As a result, the Final Adopted Budget of the MCRC has been amended to equal a closer estimate of the actual revenue, expenditures and fund balance for the year ended December 31, 2004.

CAPITAL ASSETS AND LONG-TERM DEBT:

Missaukee County Road Commission has capital assets for full accrual accounting purposes, net of accumulated depreciation, in the amount of \$18,997,772. The MCRC has no outstanding debt connected with fixed assets so the amount net of related debt is \$18,997,772. This information, which includes infrastructure, is summarized below.

CAPITAL ASSETS:

Land and Improvements	\$	101,014
Buildings		1,284,361
Equipment:		
Road		3,886,264
Shop		86,854
Office		27,721
Infrastructure		<u>29,841,104</u>
Total Capital Assets		35,227,318
Accumulated Depreciation		<u>16,229,546</u>
Net Capital Assets	\$	<u>18,997,772</u>

MISSAUKEE COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION & ANALYSIS (continued)

OTHER:

During the year the Missaukee County Road Commission completed construction on a building addition for vehicle maintenance and storage at its current location in Lake City, Michigan. During the year ended December 31, 2003 management of MCRC sold various unused real estate properties for a total selling price of approximately \$218,000 in order to offset some of the associated costs of construction. Management believes this change will increase efficiency and reduce overall costs of operations.

Subsequent to the year ended December 31, 2004 the Road Commission settled its first contract with a labor union. The labor contract is with various employee groups employed by MCRC. Management considers this change to be an effective modification towards labor relations and collective bargaining.

Management is not aware of any other currently known facts, decisions, or conditions that would be expected to have a significant effect on Missaukee County Road Commission's financial condition next year and beyond.

MISSAUKEE COUNTY ROAD COMMISSION

STATEMENT OF NET ASSETS

DECEMBER 31, 2004

ASSETS:

Cash and Cash Equivalents	\$ 117,035
Investments	669,045
Accounts Receivable	974,855
Due from State of Michigan	2,692
Inventory	220,414
Capital Assets (net of accumulated depreciation)	18,997,772
Total Assets	<u>20,981,813</u>

LIABILITIES:

Current Liabilities	
Accounts Payable	108,409
Equipment Purchase Advance	92,457
State Trunkline Maintenance Advance	32,918
Accrued Payroll	11,547
Total Current Liabilities	<u>245,331</u>
Non-Current Liabilities	
Compensated Absences	129,891
Total Non-Current Liabilities	<u>129,891</u>
Total Liabilities	<u>375,222</u>

NET ASSETS:

Contributed Capital	154,237
Reserved For:	
Inventories	220,414
Long-term Investment	6,907
Investment in Capital Fixed Assets	18,997,772
Restricted for County Roads	1,227,261
Total Net Assets	<u>\$ 20,606,591</u>

The accompanying notes are an integral part
of these financial statements

MISSAUKEE COUNTY ROAD COMMISSION

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2004

PROGRAM EXPENSES

Primary Road Maintenance	\$ 775,053
Local Road Maintenance	1,485,719
State Trunkline Maintenance	444,265
Net Equipment Expense	(181,368)
Net Administrative Expense	279,188
Compensated Absences	(11,977)
Infrastructure Depreciation	1,314,231
Total Program Expenses	<u>4,105,111</u>

PROGRAM REVENUE

Motor Vehicle Highway Funds	3,084,118
State Trunkline	444,265
Other State Revenue	66,704
State Grants	65,936
Federal Grants	610,085
County Raised Funds	821,188
Permits	5,580
Interest	16,176
Other	25,747
Total Program Revenue	<u>5,139,799</u>

Net Program Revenue	1,034,688
Gain on Equipment Disposal	<u>1,588</u>
Total General Revenue	<u>1,588</u>

Change in Net Assets	1,036,276
Net Assets, Beginning of Year	19,574,409
Amortization of Contributed Capital	<u>(4,094)</u>
Net Assets, End of Year	<u>\$ 20,606,591</u>

The accompanying notes are an integral part
of these financial statements

MISSAUKEE COUNTY ROAD COMMISSION

BALANCE SHEET

DECEMBER 31, 2004

ASSETS

Cash and Cash Equivalents	\$ 117,035
Investments	669,045
Accounts Receivable	974,855
Due from State of Michigan	2,692
Inventory	<u>220,414</u>
Total Assets	<u>\$ 1,984,041</u>

LIABILITIES

Accounts Payable	\$ 108,409
Equipment Purchase Advance	92,457
State Trunkline Maintenance Advance	32,918
Accrued Payroll	<u>11,547</u>
Total Liabilities	245,331

FUND BALANCE

Contributed Capital	154,237
Reserved For:	
Inventory	220,414
Long-term Investment	6,907
Available Operating Funds	<u>1,357,152</u>
Total Fund Balance	<u>1,738,710</u>
Total Liabilities and Fund Balance	<u>\$ 1,984,041</u>

The accompanying notes are an integral part
of these financial statements.

MISSAUKEE COUNTY ROAD COMMISSION

**RECONCILIATION OF THE BALANCE SHEET FUND BALANCE
TO THE STATEMENT OF NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2004**

Total governmental fund balance (includes Contributed Capital) \$ 1,738,710

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds: 18,997,772

Long-term liabilities are not due and payable in the current period and therefore not reported as liabilities in the fund. Long-term liabilities at year end consist of the following:

Compensated Absences Payable	<u>(129,891)</u>	<u>(129,891)</u>
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Net assets of governmental activities		<u><u>\$ 20,606,591</u></u>
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The accompanying notes are an integral part
of these financial statements.

MISSAUKEE COUNTY ROAD COMMISSION

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE FOR THE YEAR ENDED DECEMBER 31, 2004

REVENUES

Motor Vehicle Highway Funds	\$ 3,084,118
State Trunkline	444,265
Other State Revenue	66,704
State Grants	65,936
Federal Grants	610,085
County Raised Funds	821,188
Permits	5,580
Interest	16,176
Gain on Equipment Disposal	1,588
Other	25,747
Total Revenues	<u>5,141,387</u>

EXPENDITURES

Public Works	4,891,785
Capital Outlay - Net	753
Total Expenditures	<u>4,892,538</u>

Excess (Deficiency) of Revenues Over Expenditures	248,849
Fund Balance, Beginning of Year	<u>1,335,624</u>
Fund Balance, End of Year	<u>\$ 1,584,473</u>

The accompanying notes are an integral part
of these financial statements.

MISSAUKEE COUNTY ROAD COMMISSION

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004**

Net change in fund balance - total governmental funds \$ 248,849

Amounts reported for governmental activities in the statement are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. 775,450

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This is the amount of the net change in compensated absences 11,977

Change in Net Assets of governmental activities \$ 1,036,276

The accompanying notes are an integral
part of these financial statements.

MISSAUKEE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2004

1. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Missaukee County Road Commission (MCRC) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the MCRC.

Effective January 1, 2003, the MCRC implemented the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. Certain significant changes in the statements include the following:

A Management Discussion and Analysis (MD&A) section providing an analysis of the Road Commission’s overall financial position and results of operations has been included in the financial statements.

Financial statements prepared using full accrual accounting for all of the Road Commission’s activities, including infrastructure.

These and other changes are reflected in the accompanying financial statements (including the Notes to the Financial Statements).

REPORTING ENTITY

The Missaukee County Road Commission (MCRC) is an independent governmental agency operated under the jurisdiction of the State of Michigan and Missaukee County established pursuant the County Road Law MCL 224.1. The Commission is charged with the responsibility of maintaining all primary and local road systems in Missaukee County. The MCRC is governed by a board appointed by the County Board of Commissioners.

In accordance with the provisions of GASB 14, the MCRC is considered a component unit of Missaukee County for financial reporting purposes. The criteria for determining the various governmental organizations to be included in the reporting entity’s financial statements include oversight responsibility, scope of public service and special financing relationships.

The MCRC Operating Fund (County Road Fund) is used to control the expenditures of Michigan Transportation Fund moneys distributed to the County, which are earmarked by law for street and highway purposes. The Board of County Road Commissioners is responsible for the administration of the County Road Fund. The MCRC may not issue

MISSAUKEE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2004

debt without the County's approval, and property tax levies are subject to County Board of Commissioner's approval.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e. the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the activities of the Missaukee County Road Commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in fixed assets, net of related debt, or restricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by the program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers of applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for the County Road Fund (governmental fund). The County Road Fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purposes and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. Major individual governmental funds are reported in separate columns in the fund financial statements.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual method of accounting. Revenue is recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

MISSAUKEE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2004

Government fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within sixty (60) days of the end of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures related to compensated absences and claims, and judgments are recorded only when the payment is due.

Michigan transportation funds, grants, permits, township contributions, charges for services and sales, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other items are considered to be available only when cash is received.

CASH AND CASH EQUIVALENTS

The Road Commission's cash and cash equivalents are considered to be cash on hand, demand deposit including certificates of deposit, and short-term investments with original maturities of three months or less from date of acquisition.

State statutes authorize the Road Commission to invest in U.S. governmental obligations, certificates of deposit, commercial paper, repurchase agreements, banker's acceptances, and with some restrictions, mutual funds.

All investments, if any, are stated at fair value.

INVENTORIES

Inventories consisting of equipment parts and supplies of \$97,060 and road materials of \$123,354 are stated at cost based on the weighted-average cost method. Inventory items are charged to equipment repairs and operations and to road construction and maintenance as used.

CAPTIAL ASSETS

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. roads and bridges), are reported in the government-wide financial statements. The Missaukee

MISSAUKEE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2004

County Road Commission defines those assets with initial individual cost of more than \$200 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

GASB No. 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending after June 30, 1980 be inventoried and capitalized. The Missaukee County Road Commission has retroactively capitalized all of its assets as required effective January 1, 2003.

DEPRECIATION AND DEPLETION

Depreciation has been provided over the estimated useful lives using the sum of the year's digit method for road equipment and the straight line method for buildings. The estimated useful life of the assets is 5 to 50 years. This is in accordance with standard levies and rates as established by the State of Michigan.

Depreciation is determined by allocating the purchase cost of the total years available. As materials are used, the proportionate share of cost is charged to depletion.

LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets.

COMPENSATED ABSENCES (ACCUMULATED UNPAID VACATION AND SICK LEAVE)

The total accumulated unpaid vacation and sick pay liability of the Missaukee County Road Commission at December 31, 2004 was \$129,891. This amount was determined to be a long-term liability in its entirety and is therefore reflected as a non-current liability on the government-wide statements. A liability for these amounts is only reported in the governmental funds for known terminations as of year end.

County Road employees earn vacation and personal leave in varying amounts depending on the number of years of service. Accumulated vacation may not exceed the total earned for any given year per the union contract. Non-union employees are also subject to the vacation provisions embodied in the union contract. Unpaid vacation and personal leave at December 31, 2004 amounted to \$64,497.

MISSAUKEE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2004

Sick leave is accumulated at the rate of one day for each month of service with accumulation not to exceed 640 hours. The policy also provides that employees, who separate from employment with the road Commission, will be paid for a certain portion their accumulated sick leave. Unpaid sick leave at December 31, 2004 amounted to \$65,394.

FUND BALANCE

The Road Commission reserves those portions of fund equity which are legally segregated for a specific future use of which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity that is available for appropriation in future periods. Fund equity reserves have been established for inventories.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

BUDGET AND BUDGETARY ACCOUNTING

The budgetary data presented in the financial statements of the Road Commission are in accordance with the Uniform Budgeting and Accounting Act (Act 621, Public Acts of 1978), as prescribed by the State of Michigan.

The Road Commission follows these procedures in establishing the budget as reflected in these financial statements:

1. In December the clerk-finance director submits, to the Commission, a proposed operating budget for the year commencing on January 1.
2. Prior to December 31, the budget is legally enacted through passage of a resolution.
3. For purposes of meeting emergency needs of the Road Commission, transfer of appropriations may be made by the authorization of the clerk. Such transfers of appropriations must be approved by the Commission at its next regularly scheduled meeting.

MISSAUKEE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2004

4. The Clerk is charged with general supervision of the budget.
5. During the year the budget is monitored and amendments to the budget resolution are made as deemed necessary.
6. The budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS

State statute authorizes investment of funds in obligations of the United States; certificates of deposits and savings and checking accounts with banks, savings and loan associations or credit unions which are insured with the applicable federal agency; commercial paper within the three highest rate classifications as rated by two rating services, maturing not later than 270 days from date, to the extent of 50% of total surplus funds; U.S. or agency repurchase agreements; bankers' acceptance of U.S. banks; mutual funds.

The checking account held by the Commission, as custodian, is fully insured by the Federal Deposit Insurance Corporation (FDIC). Commission cash held by the County Treasurer, as custodian, share their FDIC insurance coverage with all other cash assets held by the County of Missaukee. The proportionate share of FDIC insurance coverage related to the Commission's cash held by the County Treasurer has not been determined.

For all cash and investments, Cost approximates Market Value.

CASH – OPERATING FUND

Types of cash items at December 31, 2004 are as follows:

Cash on hand	\$ 100
Checking	1,000
Cash held by county Treasurer - Checking	<u>115,935</u>
Total	<u>\$ 117,035</u>

Except for Gateway Systems Corporation, investments are uninsured and unregistered and held by the agent, but not in the Road Commission's name.

Gateway Systems Corporation Common Stock is uninsured, but registered in the Road Commission's name and held by the Road Commission.

MISSAUKEE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2004

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS – (Continued)

INVESTMENTS – OPERATING FUND

Northwestern Bank	
Business Money Market	\$ 167,490
Fifth Third Bank	
Certificate of Deposit	102,374
Fifth Third Bank	
Public Fund Savings	392,274
Gateway Systems Corporation	
Common Stock – 138,129 Shares	<u>6,907</u>
Total	<u>\$ 669,045</u>

CASH AND INVESTMENTS – DEFERRED COMPANSATION AND PENSION

Deferred Compensation	
Investment in Public Employers Retirement Trust	\$ 229,101
Investment in Kemper Zurich Advantage III Funds	xx,xxx
Pension	
Investment in Public Employers Retirement Trust	<u>1,582,460</u>
Total	<u>\$ x,xxx,xxx</u>

Substantially all of the assets of the Deferred Compensation Plan for active employees, and the Pension Trust are invested in a pool of the Public Employers Retirement Trust (PERT). Amounts invested by retirement employees are held in a separate account.

PERT records unrecognized gain and losses. As a result, investments are carried at market value. No information is available regarding the cost of its investments.

3. PENSION PLAN

The Missaukee County Road Commission Money Purchase Pension Plan, a single-employer plan, covers substantially all of its full-time employees. The employer contributes 10% of covered payroll. No employee contributions are allowed.

MISSAUKEE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2004

3. PENSION PLAN – (Continued)

Vesting begins the second year, and is granted at a rate of 20% per year until the sixth year when it is considered fully vested. Fully vested assets total \$ 1,582,460.

The total amount of covered payroll for 2004 was \$ 959,980. The total payroll for the same period was \$ 1,020,586.

The Road Commission's contributions for the year amounted to \$95,998 (10% of covered payroll). The contributions are invested in the Public Employers Retirement Trust/Michigan.

Distributions from the plan will be made upon termination of employment or upon retirement, on or after normal retirement age of 62.

4. CONTINGENCIES

The Missaukee County Road Commission contracts with the State of Michigan to perform state highway maintenance functions for the State. The cost of the maintenance is then billed to the State of Michigan who reimburses the Missaukee County Road Commission for the costs incurred. These cost reimbursement contract expenditures are subject to audit at some future date by the State of Michigan. The amount, if any, of expenditures which may be disallowed by the State of Michigan cannot be determined until the State completes its annual audit of its maintenance agreement with the Missaukee County Road Commission. The audit adjustment is accounted for as an adjustment of the current year's expenditures.

5. EQUIPMENT AND TRUNKLINE MAINTENANCE ADVANCE

The State of Michigan has advanced funds to the Missaukee County Road Commission for the purchase of equipment and for trunk line maintenance. Each advance is an annual advance with appropriate adjustments made each year to reflect the current balance based on applicable formula developed by the Michigan Department of Transportation. Because the transaction is an annual advance, the transaction is classified as a liability in the Special Revenue Fund, rather than an item included in Long-Term Debt, in accordance with the instructions of the Local Audit Division of the Michigan Department of Treasury.

MISSAUKEE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2004

6. LONG-TERM DEBT

The following is a summary of the long-term debt transactions for the Road Commission for the year ended December 31, 2004:

	Accumulated Sick & Vacation Leave
Long-term debt at December 31, 2003	\$ 141,868
Adjustment to recognize change in accumulated sick leave and vacation at December 31, 2004	<u>(11,977)</u>
Long-term debt at December 31, 2004	<u>\$ 129,891</u>

7. POST RETIREMENT BENEFITS OTHER THAN PENSION

The Road Commission provides post retirement hospitalization to its retired full-time employees who were hired before 1984.

The Road Commission funds 100% of the premiums of the policies on a pay-as-you-go basis. During 2004, the Road Commission paid deductibles and hospitalization premiums for 13 qualified individuals totaling \$xxx,xxx.

8. RISK MANAGEMENT

The Road Commission is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions, injuries to employees, and natural disasters. The Road Commission manages its liability and property risk by participating in Michigan County Road Commission Self Insurance Pool and the County Road Association Self Insurance Fund (for workers compensation). These insurance providers are public entity risk pools providing coverage to its members. The Road Commission pays an annual premium to these providers for its insurance coverage. These providers are self-sustaining through member premiums and provides, subject to certain deductibles, occurrence-based casualty coverage for each incident and occurrence based on property coverage to its members by and occurrence based on property coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Various deductibles are maintained to place responsibility for small charges with the insured. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

MISSAUKEE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2004

9. FIXED ASSETS

The following is a summary of changes in the General Fixed Assets Account Group (as restated for GASB 34 implementation):

<u>Fixed Assets</u>	<u>Balance 01/01/04</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/04</u>
Land and Improvements	\$ 37,717	\$ 63,297	\$ -	\$ 101,014
Buildings	814,974	469,770	-	1,284,744
Construction in Progress	413,453	83,604	497,057	-
Equipment				
Road	3,713,615	190,801	18,152	3,886,264
Shop	49,068	39,544	1,758	86,854
Office	27,721	-	-	27,721
Infrastructure				
Roads	24,741,289	2,079,597	-	26,820,886
Bridges	<u>3,010,887</u>	<u>9,331</u>	<u>-</u>	<u>3,020,218</u>
Total	<u>\$ 32,808,724</u>	<u>2,935,944</u>	<u>516,967</u>	<u>\$ 35,227,701</u>

Accumulated Depreciation

Land and Improvements	\$ 30,915	\$ 10,718	\$ -	\$ 41,633
Buildings	335,725	18,613	-	354,338
Construction in Progress	-	-	-	-
Equipment				
Road	2,978,172	294,672	18,152	3,254,692
Shop	45,828	7,907	1,758	51,977
Office	16,713	16,913	-	33,626
Infrastructure				
Roads	10,543,824	1,253,918	-	11,797,742
Bridges	<u>635,225</u>	<u>60,313</u>	<u>-</u>	<u>695,538</u>
Total	<u>\$ 14,586,402</u>	<u>1,663,054</u>	<u>19,910</u>	<u>\$ 16,229,546</u>
Net Fixed Assets	<u>\$ 18,222,322</u>			<u>\$ 18,998,155</u>

MISSAUKEE COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2004

10. DEFERRED COMPENSATION PLAN

The commission offers its employees a deferred compensation plan created in accordance with IRC Section 457. The plan available to all employees permits them to defer a portion of their current salary until future years. The road commission does not contribute to the plan.

All amounts of compensation deferred under the plan, all property and rights purchased with such amounts and all income attributable to such amounts are owned by the Road Commission and are subject to the claims of the Commission's general creditors, until made available to the employee or other beneficiary. Prior to withdrawal, each employee's rights created under the plan are equivalent to those of a general creditor of the Road Commission.

It is the opinion of the Road Commission that it has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. The Commission believes that it is unlikely that it will use the assets to satisfy claims of general creditors in the future.

The market value of the investments in the Deferred Compensation Plan at December 31, 2004 was \$ 281,193.

11. FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the year ended December 31, 2004, the Federal grants received and expended by the Road Commission was \$652,034 for contracted projects and \$21,637 for negotiated projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT. Negotiated contracts are projects where the Road Commission administers the grant and either performs the work or contracts it out. The Road Commission would be subject to single audit requirements had they expended \$500,000 or more for negotiated projects.

MISSAUKEE COUNTY ROAD COMMISSION

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2004**

12. CONTRIBUTED CAPITAL

Revenues received from the State for the purchase of fixed assets are capitalized as contributed Capital. Contributed Capital items are amortized annually at the same rate as the related fixed asset. Contributed Capital received from the State totals \$ 187,891. Accumulated amortization through December 31, 2004 is \$ 33,654. Amortization for the current year is \$ 4,094.

MISSAUKEE COUNTY ROAD COMMISSION

**STATEMENT OF REVENUES - BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>ORIGINAL BUDGET</u>	<u>FINAL AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
Motor Vehicle Highway Funds				
Engineering	\$ 10,000	\$ 10,000	\$ 10,000	\$ -
Primary Roads	1,595,480	1,788,085	1,788,085	-
Local Roads	1,142,219	1,244,478	1,244,478	-
Snow Removal	40,000	41,555	41,555	-
Total Vehicle Highway Funds	<u>2,787,699</u>	<u>3,084,118</u>	<u>3,084,118</u>	<u>-</u>
State Trunkline				
Maintenance Contract	443,353	444,265	444,265	-
Non-Contract	-	-	-	-
Total State Trunkline	<u>443,353</u>	<u>444,265</u>	<u>444,265</u>	<u>-</u>
Other State Revenue				
Forest Road Funds	67,000	66,704	66,704	-
State Grants	-	65,936	65,936	
Federal Grants				
Resurfacing	600,000	586,098	586,098	-
Primary Road Maintenance	-	21,637	21,637	-
National Forest Reserve	-	2,350	2,350	-
	<u>600,000</u>	<u>610,085</u>	<u>610,085</u>	<u>-</u>
County Raised Funds	262,500	821,188	821,188	-
Other				
Interest	15,000	16,176	16,176	-
Gain on Equipment Disposal	-	1,588	1,588	-
Salvage Sales, Permits and Other	5,000	31,327	31,327	-
Total Other	<u>20,000</u>	<u>49,091</u>	<u>49,091</u>	<u>-</u>
Total Revenues	<u>\$ 4,180,552</u>	<u>\$ 5,141,387</u>	<u>\$ 5,141,387</u>	<u>\$ -</u>

MISSAUKEE COUNTY ROAD COMMISSION

STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL FOR THE YEAR ENDED DECEMBER 31, 2004

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
Primary Roads				
Routine Maintenance	\$ 670,000	\$ 775,053	\$ 775,053	\$ -
Heavy Maintenance	1,150,000	1,153,687	1,153,687	-
Total Primary Roads	1,820,000	1,928,740	1,928,740	-
Local Roads				
Routine Maintenance	1,075,000	1,485,719	1,485,719	-
Heavy Maintenance	350,000	935,241	935,241	-
Total Local Roads	1,425,000	2,420,960	2,420,960	-
State Trunkline				
Maintenance Contract	443,353	444,265	444,265	-
Non-contract	-	-	-	-
Total State Trunkline	443,353	444,265	444,265	-
Equipment Expense				
Direct	550,000	793,826	793,826	-
Indirect	210,000	338,487	338,487	-
Less: Equipment Rental	(1,046,800)	(1,313,681)	(1,313,681)	-
Total Equipment Expense	(286,800)	(181,368)	(181,368)	-
Administrative Expense				
Administrative Expense	225,000	321,326	321,326	-
Less: Overhead - State	(74,000)	(41,081)	(41,081)	-
Less: Charged to Drain	-	(831)	(831)	-
Less: Refunds	-	(226)	(226)	-
Total Administrative Expense	151,000	279,188	279,188	-
Capital Outlay				
Capital Outlay	358,000	349,576	349,576	-
Less: Depreciation	(225,000)	(348,823)	(348,823)	-
	133,000	753	753	-
Distributive Expense	494,750	-	-	-
Total Expenditures	<u>\$ 4,180,303</u>	<u>\$ 4,892,538</u>	<u>\$ 4,892,538</u>	<u>\$ -</u>

MISSAUKEE COUNTY ROAD COMMISSION

**STATEMENT OF CHANGES IN OPERATING FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>BUDGET</u>	<u>ACTUAL</u>
Fund Balance - January 1, 2004	\$ 1,335,624	\$ 1,335,624
Add:		
Revenue and Other Financing Sources	5,141,387	5,141,387
Deduct:		
Expenditures and Other Financing Uses	4,892,538	4,892,538
Fund Transfer	<u>-</u>	<u>-</u>
Fund Balance - December 31, 2004	1,584,473	1,584,473
Reserved for:	-	(220,414)
Inventories	<u>-</u>	<u>(6,907)</u>
Long-term Investment	<u>-</u>	<u>(227,321)</u>
Available Operating Balance - December 31, 2004	<u>\$ 1,584,473</u>	<u>\$ 1,357,152</u>

MISSAUKEE COUNTY ROAD COMMISSION

**SCHEDULE OF CHANGES IN OPERATING FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>PRIMARY</u>	<u>LOCAL</u>	<u>ROAD COMMISSION</u>	<u>TOTAL ACTUAL</u>
Fund Balance - January 1, 2004	\$ 1,194,167	\$ 311,317	\$ (169,860)	\$ 1,335,624
Add:				
Revenue and Other Financing Sources	2,557,531	2,088,150	495,706	5,141,387
Deduct:				
Expenditures and Other Financing Sources	2,009,733	2,467,711	415,094	4,892,538
Fund Transfer	<u>(268,213)</u>	<u>268,213</u>	<u>-</u>	<u>-</u>
Fund Balance - December 31, 2004	1,473,752	199,969	(89,248)	1,584,473
Reserved for				
Inventories	-	-	(220,414)	(220,414)
Long-term Investments	-	-	(6,907)	(6,907)
Total Reserves	<u>-</u>	<u>-</u>	<u>(227,321)</u>	<u>(227,321)</u>
Available Operating Balance - December 31, 2004	<u>\$ 1,473,752</u>	<u>\$ 199,969</u>	<u>\$ (316,569)</u>	<u>\$ 1,357,152</u>

MISSAUKEE COUNTY ROAD COMMISSION

SCHEDULE OF REVENUES FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>PRIMARY</u>	<u>LOCAL</u>	<u>ROAD COMMISSION</u>	<u>TOTAL</u>
Motor Vehicle Highway Funds				
Engineering	\$ 5,800	\$ 4,200	\$ -	\$ 10,000
Primary Roads	1,788,085	-	-	1,788,085
Local Roads	-	1,244,478	-	1,244,478
Snow Removal	23,271	18,284	-	41,555
Total Vehicle Highway Funds	<u>1,817,156</u>	<u>1,266,962</u>	<u>-</u>	<u>3,084,118</u>
State Trunkline				
Maintenance Contract	-	-	444,265	444,265
Non-Contract	-	-	-	-
Total State Trunkline	<u>-</u>	<u>-</u>	<u>444,265</u>	<u>444,265</u>
Other State Revenue				
Forest Road Funds	66,704	-	-	66,704
State Grants	65,936	-	-	65,936
Federal Sources				
Pavement Rehabilitation(contractd)	607,735	-	-	607,735
National Forest Reserve	-	-	2,350	2,350
	<u>607,735</u>	<u>-</u>	<u>2,350</u>	<u>610,085</u>
County Raised Funds	-	821,188	-	821,188
Other				
Interest	-	-	16,176	16,176
Gain on Equipment Disposal	-	-	1,588	1,588
Permits	-	-	5,580	5,580
Other	-	-	25,747	25,747
Total Other	<u>-</u>	<u>-</u>	<u>49,091</u>	<u>49,091</u>
Total Revenues	<u>\$ 2,557,531</u>	<u>\$ 2,088,150</u>	<u>\$ 495,706</u>	<u>\$ 5,141,387</u>

MISSAUKEE COUNTY ROAD COMMISSION

SCHEDULE OF EXPENDITURES FOR THE YEAR ENDED DECEMBER 31, 2004

	PRIMARY	LOCAL	ROAD COMMISSION	TOTAL
Primary Roads				
Routine Maintenance	\$ 775,053	\$ -	\$ -	\$ 775,053
Heavy Maintenance	1,153,687	-	-	1,153,687
Total Primary Roads	1,928,740	-	-	1,928,740
Local Roads				
Routine Maintenance	-	1,485,719	-	1,485,719
Heavy Maintenance	-	935,241	-	935,241
Total Local Roads	-	2,420,960	-	2,420,960
State Trunkline				
Maintenance Contract	-	-	444,265	444,265
Non-contract	-	-	-	-
Total State Trunkline	-	-	444,265	444,265
Equipment Expense				
Direct	-	-	-	793,826
Indirect	-	-	-	338,487
Less: Equipment Rental	-	-	-	(1,313,681)
Total Equipment Expense	(42,804)	(108,640)	(29,924)	(181,368)
Administrative Expense				
Administrative Expense	-	-	-	321,326
Less: Overhead - State	-	-	-	(41,081)
Less: Charged to Drain	-	-	-	(831)
Less: Refunds	-	-	-	(226)
Total Administrative Expense	123,797	155,391	-	279,188
Capital Outlay				
Capital Outlay	-	-	349,576	349,576
Less: Depreciation	-	-	(348,823)	(348,823)
	-	-	753	753
 Total Expenditures	 \$ 2,009,733	 \$ 2,467,711	 \$ 415,094	 \$ 4,892,538